

Message Text

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PAGE 01 KATHMA 05102 141113Z
ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 INR-07 NSAE-00
/035 W

----- 123301 /11

R 140948Z DEC 76
FM AMEMBASSY KATHMANDU
TO SECSTATE WASHDC 6936
INFO AMEMBASSY LONDON

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E.O. 11652 N/A
TAGS: EAID ELTN NP
SUBJ: BRITISH AID TO NEPAL: DHARAN/DHANKUTTA ROAD

1. FORMAL PROJECT AGREEMENT FOR CONSTRUCTION BY THE UK OF A ROAD FROM DHARAN TO DHANKUTTA WAS SIGNED IN KATHMANDU DECEMBER 7. ESTIMATED COST OF THE PROJECT IS 15.4 MILLION POUNDS (\$25MILLION). PROJECTED TO BE COMPLETED IN FIVE YEARS, THIS ROAD WILL CONNECT WITH THE ROAD FROM DHARAN TO THE IMPORTANT REGIONAL CENTER OF BIRATNAGAR ON THE INDIAN BORDER, WHICH WAS BUILT BY THE BRITISH IN THE EARLY 1960'S. IN DOLLAR VALUE AT LEAST, IT WILL BE THE LARGEST SINGLE AID PROJECT EVER UNDERTAKEN IN NEPAL BY THE UK, OR INDEED BY ANY INDIVIDUAL BILATERAL DONOR.

2. COMMENT: THIS PROJECT ONCE AGAIN ILLUSTRATES THE FREQUENTLY QUESTIONABLE ECONOMICS OF ROAD CONSTRUCTION IN THE MOUNTAINS OF NEPAL. AT \$25 MILLION, THE CAPITAL COST ALONE OF THE 52 KM ROAD WILL BE ALMOST HALF A MILLION DOLLARS PER KILOMETER (COMPARED TO APPROXIMATELY \$100,000 PER KM, FOR THE 120 KM BRITISH SECTOR OF THE EAST-WEST HIGHWAY). EVEN WORSE, INASMUCH AS THE STRAIGHT LINE DISTANCE BETWEEN THE TWO TOWNS IS ONLY 20 KM, THE EFFECTIVE COST OF THIS ROAD CONNECTION WILL BE \$1.25 MILLION/KM. IN CONTRAST, THE SAME BASIC CARGO TRANSPORT CAPABILITY COULD HAVE BEEN ACHIEVED BY AN EXTENSION OF THE PROPOSED EASTERN HILLS ROPEWAY, FOR NOT MORE THAN \$2.5 MILLION, AND WITHOUT MOST OF THE FUTURE INDIRECT COSTS OF HEAVY MAINTENANCE AND AN INCREASED IMPORT BILL FOR VEHICLES AND FUEL MAINTENANCE AND AN INCREASED IMPORT BILL FOR VEHICLES

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AND FUEL CONSUMPTION. THE ONE NOTABLE POINT IN FAVOR OF THE

ROAD IS THAT IT WILL CONNECT WITH SOME FAIRLY EXTENSIVE JEEPABLE TRAILS GOING FURTHER INTO THE HINTERLAND FROM DHANKUTTA. YET ON THE BALANCE, ESPECIALLY AT A TIME WHEN GON FINANCE MINISTER THAPA IS PROJECTING A \$124 MILLION DEVELOPMENT RESOURCE GAP OVER THE NEXT THREE YEARS (SEE TOKYO 17858), THIS PROJECT TENDS TO SUGGEST INADEQUATE NEPALESE CONCERN FOR COST-EFFECTIVNESS IN ALLOCATION OF ITS SCARCE DEVELOPMENT RESOURCES.

3. BRITISH OFFICIALS CONNECTED WITH THE PRJECT READILY CONCEDE IN OFF-THE-RECORD DISCUSSION THAT TOE COST OF THIS ROAD IS EXTREAMELY HIGH, BUT EXPLAIN THAT THERE HAD BEEN A MORE OR LESS EXPLICIT ASSUMPTION ON BOTH SIDES FOR OVER A DECADE THAT THE BRITISH WOULD EVENTUALLY EXTND THE BIRATNAGAR/DHARAN ROAD ON UP TO DHANKUTTA. A COMBINATION OF INFLATION AND RISING EXPECTATIONS AS TO DESIGN STANDARDS (AS RECENTYL AS 1937 THE COST ESTIMATE WAS ONLY 10 MILLION POUNDS) SIMPLY TURNED IT INTO A MUCH BIGGER PROJECT THAT HAD ORIGINALLY BEEN ENVISAGED. THEY ALSO POINT OUT THAT THE ROAD WILL BE A VITAL ELEMENT IN THE OVERALL AID EFFORTS IN EASTERN NEPAL, NOTABLY THE BRITISH BURKHA REINTEGRATION SCHMENE AND A NEW MORE GNERAL RURAL DEVELOPMENTN PROGRAM WHICH THEY ARE UNDERTAKING.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSTRUCTION, FOREIGN ASSISTANCE AGREEMENTS, HIGHWAYS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976KATHMA05102
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760460-0322
From: KATHMANDU
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761245/aaaabmwn.tel
Line Count: 85
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 19 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 MAY 2004 by BoyleJA>; APPROVED <15 SEP 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BRITISH AID TO NEPAL: DHARAN/DHANKUTTA ROAD
TAGS: EAID, ELTN, NP, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006